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Foreign service dispatches: Mozambique.

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FOREIGN SERVICE DESPATCH

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FROM : Amcongén, Lourenço Marques

206

NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON.

February 6, 1962

DATE

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SUBJECT: Mozambique Business Situation Worsening; Imports to be Drastically Reduced in 1962

An increasing number of complaints on the part of commercial and business associations throughout Mozambique over the past month, many of which have crept into the controlled local press, have tended to confirm numerous and widespread reports that the economy of the Province is passing through a sharp financial and economic crisis, possibly unprecedented in the modern history of this Portuguese territory. While most of the complaints aired publicly concern the Government's refusal to issue traditional import licenses, especially when non-Portuguese goods are involved, local newspaper articles and individual conversations reveal that some Government contractors and public servants have not been paid in weeks, and in some cases, in months. Reportedly, the trade imbalance which amounted to a US\$55 million deficit in 1960 continued into 1961 at about the same rate. Moreover, it is believed that invisible earnings in 1961 were again insufficient to make up the trade deficit and that foreign exchange availabilities are at their lowest point in recent history. The worsening economic situation has been further aggravated by the non-settlement of outstanding accounts between local businessmen and those Indian merchants interned immediately after the fall of Goa.

As serious as these indicators of Mozambique's sick economy are, it has been rather the Government's reaction to the business situation which has set off the recent rash of protests among the usually subdued inhabitants. The multiple tax increases announced in mid-December on income and consumer goods (see D-151 of December 20, 1961), the Government's reported announcement this week that imports will be reduced in 1962 by about one-third (about 1 million contos or US\$35 million), its apparent reluctance to issue even a minimum number of import licenses, and increased measures to tighten controls over capital transfers, whether to Portugal or to foreign countries, have all combined to cause a considerable amount of apprehension and concern within private business circles.

IMPORTS

In 1960, Mozambique's trade imbalance reached approximately US\$55 million.

PFCanney/vscl

REPORTER

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a record figure despite various Government attempts to control and restrict imports through drastic reductions in the issuance of import licenses, an importers' registration scheme (see D-92 of November 29, 1960 and D-179 of March 20, 1961), and a strict enforcement of the ban on items considered non-essential, both from the dollar and non-dollar areas.

While official trade figures for 1961 have been kept secret deliberately, it has been rumored that the imbalance picture did not change significantly in 1961. As a result, the Government has decided, apparently, to adopt a get-tough policy designed to close the trade gap, despite the very serious consequences which the program is sure to stimulate throughout the economy in the form of unemployment, reduced taxes and loss of purchasing power.

In the past week, the commercial associations of Lourenço Marques, Beira and Quelimane have met to discuss the import question. As usual, the Beira organization has been the more outspoken in its criticism of the Government's stringent measures. Charges have been directed against the extreme centralization of decision-making in the Lourenço Marques headquarters of the Foreign Commerce Board. Apparently, even routine requests for import licenses have been referred to Lourenço Marques with delays of up to 90 days being experienced before consideration of the application is made. Red tape, however, has always been a characteristic of the local bureaucracy. What is really stirring up feeling among Mozambique importers is the decision of the Foreign Commerce Board to refuse all licenses to individuals or firms who have not yet registered as importers for 1962. It will be recalled that Decree Law 2022 of October 1960 obliged all would-be importers to register as such with the Board between January and February 28 of each year and to pay a fee, ranging from US\$17.35 to US\$86.75, the amount depending on the categories of goods desired. Importers dealing in a varied line of goods must register in several Classes and are obliged, therefore, to pay a number of fees each year. For the average importer, these fees probably add up to about 20,000 escudos (US\$694) annually. Decree 2022 was itself the direct cause of a series of protest meetings a year ago and the registration scheme has not become any more popular in the ensuing period. Importers apparently feel that import licenses will not be forthcoming even after their registration.

Major João BENTO, President of the Foreign Commerce Board (and Chief of Cabinet in the Office of the Governor General) informed the Beira Association last week that the Government will insist on enforcing Decree 2022, i.e., no import licenses to unregistered firms or individuals. Further, it was announced by the President of the Beira Association on February 2 that the Government has definitely decided to reduce imports in 1962 by 1 million contos (US\$35 million) under the 1961 figure. Such a reduction would amount to about one-third of total imports in 1961 and would be an unprecedented step in Mozambique trade history. The Consulate General has been unable to confirm the announcement but does not doubt its veracity. The new import regime is reportedly to become effective this week.

At the same meeting, it was announced that the Foreign Commerce Board has devised an import quota distribution program for 1962. Four urban centers - Lourenço Marques, Beira, Nampula and Quelimane have been chosen as the nuclei of the scheme. A total quota of imports, by value, for the Province will be set by the Government and distributed among these centers according to a standard based on the average value of imports over the past three years in each particular area. In line with

available exchange funds, each importer in the various centers will then be able to plan his import pattern for the remainder of the year. No mention was made of traders in the other urban centers of Mozambique but it is presumed they will be permitted to participate in a similar program.

Comment: The new difficulties being faced by the import trade here cannot be considered anything but discouraging to all foreign suppliers of Mozambique. Apparently, no items considered non-essential (as defined by the Foreign Commerce Board) will be permitted entry, whether from Portugal, the dollar area or from countries with which Portuguese has valid trade agreements, i.e., with most Western European nations. One report reaching us claims that no permits for pleasure automobiles will be issued until after March 31 of this year and only in exceptional cases after that date. Foreign exchange availabilities reportedly descended to their lowest point in modern times in 1961 and until there is a noticeable increase in exchange funds, the Government will undoubtedly maintain its extremely restrictive policy.

FLIGHT OF CAPITAL

Decree Law No. 44,160 of January 19, 1962, issued by the Ministry for Overseas Affairs authorizes the inspection of bank accounts in Angola and Mozambique. Its aim, of course, is to hinder illegal transfers of cash to prevent serious repercussions on Provincial balances of payments. The Government's new law has helped to reveal the capital flight situation which has prevailed since the outbreak of violence in Angola a year ago. Not only have private citizens resorted to any means available to them to transfer funds to the Metropole and elsewhere, but the largest trade, agricultural and industrial organizations in the Province have done so as well. While the Government has been increasingly reluctant to approve individual applications for transfers (at present a maximum of about US\$35 per month may be sent to the Metropole by individuals here after a complete justification is made of the need), very little has been reported of the transfers being made by large firms whose head offices are in Portugal. One usually reliable source has claimed that the Sena Sugar Estates organization in the past 6 months has succeeded in transferring more than US\$17 million in accumulated savings to London banks, a step which reportedly had to be approved since the capital represented earnings over past years whose transfer had already been authorized.

The Consulate General understands that a recent issue of the Financial Times of London has reported that the flight abroad of Portuguese capital has made banks and money dealers in the Metropole reluctant to accept bank notes issued in Angola and that Mozambique escudos are being accepted at no more than 75 percent of their face value. If true, of course, there is little likelihood that any Portuguese capitalist or bank would be willing to invest venture capital in even the most rational economic opportunity in Portuguese Africa.

GOVERNMENT PAYROLLS, CONSTRUCTION, EMPLOYMENT

In the past few weeks, the local press has exhibited increasing concern over reports that many Government employees and Government contractors have been "temporarily" denied payment for services already rendered, for projects already

completed and for goods already furnished. Even the xenophobic, pro-regime Diario of Lourenço Marques in the past few days has called upon the Government to correct certain "hardship" cases among Government civil servants, some of whom have not been included in Government payrolls for more than a month. The failure of the Government to meet its commitments on time is apparently having a chain-reaction effect among private contractors who are unable to pay employees' salaries in the absence of funds from the Government. As usual, there has been no comment by the Government, either confirming the situation or detailing its solution.

The delay in paying Government contractors was pointed out to the reporting officer during a trip to Tete last month. Two airstrips are being constructed there by a Lisbon engineering firm which is paid by the Lisbon Government, although with some part of the project being financed by the local Administration. The Administrator of Tete, in leading a guided tour around the construction, pointed out that the Lisbon firm was always paid on time, according to its contract with the Government. He added, rather caustically, that it was the only one in the entire District of Tete which received its payments when due.

As has been reported previously, private construction in Lourenço Marques and other urban centers in the Province has suffered from acute paralysis for the past 18 months. While there is considerable Government construction, both in the cities and in the interior (air terminals, air strips, bank buildings, military installations) there appears to be a surplus of new private residential construction, most of which has been completed over the past three years. In Lourenço Marques, several large apartment houses have remained empty over the past year and there is no indication that they will be occupied in the near future.

The increasingly serious limitations on the import trade, the slump in the construction industry, the ~~closing of all Indian firms~~ in the Province and the generally bad business conditions which prevail have undoubtedly increased the percentage of unemployed in Mozambique, both among Africans and Europeans. While the African can return to the interior to take up farming or can emigrate to surrounding territories, to work in agriculture or mining, the European worker has very few choices of action. According to a member of the South African Consulate General here, the number of applications for permanent residence in South Africa has never been as high as at the present time. South Africa, however, is not particularly anxious to absorb Portuguese unemployed and the problem remains.

COMMENT

The dark and uncertain future of Mozambique economy has tended, of course, to hinder recent Government attempts to implement institutional reforms announced over the past six months. Theoretically, the Institutes of Labor, Cotton and Cereals have been established in the Province, but their first steps, if any, have gone unnoticed. Without funds to pay for even the normal services of Government, it may be a considerable time before the new agencies will begin to function as envisaged in the law. Given the present financial and investment situation, the Portuguese Government cannot possibly support these new schemes along with increased expenditures for security and defense and an enlarged economic development program. As far as is known, none of the recent reports of large scale foreign investments in Mozambique have a basis in truth. If anything, the trend has been in the other direction -

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disinvestment. In such a situation, the Government has had to establish a system of priorities and the private sector of the economy, represented in large part by consumers, local merchants and importers, has been chosen to bear the burden of greatest sacrifice. The recent wave of pessimism, even cynicism, expressed in the press and in private conversations over the Government's recent fiscal and trade policies would indicate, however, that the level of toleration may have been reached. Additional economic restrictions on individuals or firms here are likely to stimulate more serious means of protest.

William H. Taft III

William H. Taft, III,
American Consul General

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